

**CITY OF KINGSTON LOCAL
DEVELOPMENT CORPORATION**

FINANCIAL STATEMENTS

DECEMBER 31, 2013

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KIMBALL & O'BRIEN PC

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Board of Directors
City of Kingston Local Development Corporation
Kingston, New York

Report on the Financial Statements

We have audited the accompanying financial statements of the City of Kingston Local Development Corporation (a nonprofit organization which is a component unit of the City of Kingston) which comprise the statement of net position as of December 31, 2013, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion of the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Kingston Local Development Corporation as of December 31, 2013, and the changes in its net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 8 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2014 on our consideration of the City of Kingston Local Development Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Kingston Local Development Corporation's internal control over financial reporting and compliance.

KIMBALL & O'BRIEN PC

By Mary A. Kimball

March 31, 2014

KLDC

KINGSTON LOCAL DEVELOPMENT CORPORATION

Hon. Shayne R. Gallo, President ~ Amanda L. Bruck-Little, Executive Director ~ Brenna L. Robinson, Portfolio Manager

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the **CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION's** financial performance provides an overview of the Organization's financial activities for the fiscal year ended December 31, 2013. Please read it in conjunction with the Organization's financial statements that follow. The **CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION (KLDC)** is a component unit of the City of Kingston; therefore, this discussion and analysis includes only the business-type activities of the KLDC. The KLDC is required to present its financial statements in accordance with GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*.

FINANCIAL HIGHLIGHTS

As a result of this year's operations, the Organization's net position increased \$98,306 in 2013. Operating revenues decreased to \$241,530 while operating expenses increased to \$494,361 for the year. Nonoperating revenues were \$412,969 for the year compared to \$15,933 in the prior year. Nonoperating expenses of \$61,832 were up from \$6,819 in 2012.

USING THIS ANNUAL REPORT

The activities of the Organization are the administration of certain loan programs, economic development technical assistance and training, operation of the Business Park for the City of Kingston, and infrastructure improvements aimed at fostering new job creation which are business-type activities. Since the Organization conducts only business-type activities, this annual report consists of only the Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position and the Statement of Cash Flows which provide information about the activities of the Organization only.

One of the most important questions asked about the Organization's finances is whether investments made serve to further the nonprofit economic development mission of the organization. The statements report information about the Organization's activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The statements report the Organization's net position and changes in them. You can think of the Organization's net position - the difference between assets and liabilities - as one way to measure the Organization's financial health, or financial position. Over time, increases or decreases in the Organization's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non financial factors, however, such as changes in the condition of the Organization's Business Park to assess the overall health of the Organization.

CONDENSED COMPARATIVE FINANCIAL STATEMENTS AND ANALYSIS

The Organization's net position changed from a year ago, from \$7,634,749 to \$7,733,055. Our analysis below focuses on the net position (Table 1) and changes in net position (Table 2).

Table 1
Net Position

	<u>2013</u>	<u>2012</u>
Current and other assets	\$2,237,359	\$4,927,105
Capital assets	<u>7,030,232</u>	<u>5,010,880</u>
Total assets	<u>9,267,591</u>	<u>9,937,985</u>
Long-term debt outstanding	1,527,290	2,272,290
Other liabilities	<u>7,246</u>	<u>30,946</u>
Total liabilities	<u>1,534,536</u>	<u>2,303,236</u>
Net Position:		
Invested in capital assets, net of debt	5,140,433	4,823,352
Restricted	0	57,047
Unrestricted	<u>2,592,622</u>	<u>2,754,350</u>
Total net position	<u>\$7,733,055</u>	<u>\$7,634,749</u>

Table 2
Changes
in Net Position

Revenues	<u>2013</u>	<u>2012</u>
Operating Revenues:		
Revenue from lending activities	\$89,160	\$103,255
Business Park income	151,000	151,000
Miscellaneous revenue	1,370	486
CDBG Grant	0	80,000
Nonoperating Revenues:		
Interest and investment revenue	7,769	8,077
Training Sessions	0	1,406
Project Donations	<u>405,200</u>	<u>6,450</u>
Total revenues	<u>\$654,499</u>	<u>\$350,674</u>
Interest expense		
Expenses		
Lending		
activities	356,803	161,655
Business Park	137,558	133,277
Nonoperating expenses		
Grants Paid	61,832	0
Project Administration Expenses	0	6,819
Total expenses	<u>556,193</u>	<u>301,751</u>
Increase in net position	<u>\$98,306</u>	<u>\$48,923</u>

The Organization's current revenues increased \$303,825 from the prior year. The major reason for the increase in revenue was due to the acquisition of a donated vacant building and parking lot.

The Organization's expenses increased \$254,442 in 2013. This increase in expenses was due to bad debt.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Table 3 lists the amounts that have been generally invested in capital assets. These amounts represent a net increase of \$317,081 or an increase of 5.95%.

Table 3
Capital Assets at Year-end
(Net of depreciation)

	<u>2013</u>	<u>2012</u>
Land, temporarily idle property, and construction in progress	\$3,247,918	\$2,801,853
Other capital assets, net of depreciation	<u>2,080,043</u>	<u>2,209,027</u>
Total	<u>\$5,327,961</u>	<u>\$5,010,880</u>

KLDC completed construction of a 10,000 square foot building for Armor Dynamics, Inc in July of 2008 for a total cost of \$1,854,782. KLDC received a grant in the amount of \$1,000,000.00 from the NYS Dormitory to help with the construction. Armor Dynamics paid rent of \$5,000 per month for the first 2 years. The rent increased to \$6,584 in August of 2010 for the next 8 years. The company will have the option to purchase the building for the total cost at the end of the first five (5) years.

In early 2013 the KLDC took possession of the former Bank of America Building on Broadway. This parcel was appraised at \$400,000 and was a donated by the Bank of America for the proposed Midtown Revitalization Strategy Area that includes relocating the City's Police Station to the more central Midtown location. Preliminary rehabilitation figures estimate the conversion of the BOA property to a police station to be \$1,559,000. Acquisition expenses incurred for environmental and architectural review of the parcel, totaling \$6,527, were incurred during 2012. Plans for the building have not been finalized; therefore it is considered idle property as of December 31, 2013. Holding costs of \$46,065 were capitalized in 2013.

Debt

Table 4 presents detail of debt. The outstanding debt decreased by \$745,000 or 48.78% during the year due to regular payments and pre-payment of scheduled repayment 108 notes to HUD.

Table 4
Outstanding Debt at Year-end

	<u>2013</u>	<u>2012</u>
DOT(Kingston Business Park)	\$157,290	\$157,290
HUD Loans	<u>1,370,000</u>	<u>2,115,000</u>
Total Loans	<u>\$1,527,290</u>	<u>\$2,272,290</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

Since the Organization is only engaged in business-type activities, it does not have a legally adopted budget which carries the force of law. However, the Organization's appointed board has prepared a budget to be used as a planning tool. No significant changes from the current year were anticipated in the budget.

CONTACTING THE ORGANIZATION'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, taxpayers, customers, and creditors with a general overview of the Organization's finances and to show the Organization's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the organization at Kingston Local Development Corporation, 420 Broadway, Kingston, NY 12401 or call (845) 334-3930.

CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION
(A COMPONENT UNIT OF THE CITY OF KINGSTON)
STATEMENT OF NET POSITION
DECEMBER 31, 2013

	<u>2013</u>
ASSETS:	
Current assets:	
Cash	\$ 1,440,962
Restricted cash	451,419
Notes receivable - current portion	203,731
Grants receivable	19,661
Other receivables	114,500
Prepaid expenses	<u>7,086</u>
Total current assets	<u>2,237,359</u>
Noncurrent assets:	
Notes receivable, net	1,702,271
Capital Assets:	
Land, temporarily idle property, and construction in progress	3,247,918
Other capital assets, net of depreciation	<u>2,080,043</u>
Total noncurrent assets	<u>7,030,232</u>
Total assets	<u>9,267,591</u>
LIABILITIES:	
Current liabilities:	
Accounts payable	1,684
Accrued liabilities	4,562
Due to other governments	1,000
Bonds and notes payable - current portion	<u>155,733</u>
Total current liabilities	<u>162,979</u>
Noncurrent liabilities:	
Bonds payable	300,000
Notes payable	<u>1,071,557</u>
Total noncurrent liabilities	<u>1,371,557</u>
Total liabilities	<u>1,534,536</u>
NET POSITION:	
Invested in capital assets, net of related debt	5,140,433
Unrestricted net position	<u>2,592,622</u>
Total net position	<u>\$ 7,733,055</u>

The accompanying notes are an integral part of the financial statements.

CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION
(A COMPONENT UNIT OF THE CITY OF KINGSTON)
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEAR ENDED DECEMBER 31, 2013

	<u>2013</u>
OPERATING REVENUES	
Revenue from lending activities	\$ 89,160
Rental income	151,000
Miscellaneous revenue	<u>1,370</u>
Total operating revenues	<u>241,530</u>
OPERATING EXPENSES	
Bad debt expense	242,608
Professional fees	39,712
Depreciation	128,984
Forgiveness of debt	2,533
Insurance expense	8,619
Interest expense - lending activities	16,421
Other supplies and expenses	4,767
Repairs and maintenance	4,627
Personal services and benefits	37,034
Property taxes	482
Utilities	<u>8,574</u>
Total operating expenses	<u>494,361</u>
Operating loss	<u>(252,831)</u>
NONOPERATING REVENUES (EXPENSES)	
Interest income	7,769
Donations	405,200
Grants paid	<u>(61,832)</u>
Total nonoperating revenue and expenses	<u>351,137</u>
Change in net position	98,306
Net position - beginning of year	<u>7,634,749</u>
Net position - end of year	<u>\$ 7,733,055</u>

The accompanying notes are an integral part of the financial statements.

CITY OF KINGSTON LOCAL DEVELOPMENT CORP
(A COMPONENT UNIT OF THE CITY OF KINGSTON)
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2013

CASH FLOWS FROM OPERATING ACTIVITIES:

Receipts from lending activities	\$ 522,004
Receipts from rental activities	111,500
Receipts from miscellaneous revenues	1,370
Loans granted	(17,900)
Payment of operating expenses	<u>(153,311)</u>
Net cash provided by operating activities	<u>463,663</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

Contributions received for projects	5,200
Grant receipts	27,034
Transfer of restricted funds to City of Kingston	(61,832)
Interest paid on noncapital debt	(18,350)
Principal paid on noncapital debt	<u>(745,000)</u>
Net cash used by noncapital activities	<u>(792,948)</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Acquisition of capital assets	<u>(46,065)</u>
Net cash used by capital financing activities	<u>(46,065)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Interest on cash investments	<u>7,769</u>
Net cash provided by investing activities	<u>7,769</u>

NET DECREASE IN CASH (367,581)

CASH - BEGINNING OF YEAR 2,259,962

CASH - END OF YEAR \$ 1,892,381

CASH SUMMARY:

Cash	\$ 1,440,962
Restricted cash	<u>451,419</u>
Total	<u><u>\$ 1,892,381</u></u>

The accompanying notes are an integral part of the financial statements.

CITY OF KINGSTON LOCAL DEVELOPMENT CORP
(A COMPONENT UNIT OF THE CITY OF KINGSTON)
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2013

Reconciliation of operating income to net cash

provided by operating activities:

Operating loss	\$ (252,831)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	128,984
Bad debt expense	242,608
Forgiveness of debt	2,533
Interest expense included in noncapital financing for loans granted	16,421
Changes in assets and liabilities:	
Notes and other receivables, net	371,086
Accounts payable and accrued liabilities	(22,554)
Other receivables	(18,858)
Due to other governments	(1,146)
Prepaid expenses	<u>(2,580)</u>
Net cash provided by operating activities	<u><u>\$ 463,663</u></u>

The accompanying notes are an integral part of the financial statements.

CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 1 - ORGANIZATION AND NATURE OF ACTIVITIES

The City of Kingston Local Development Corporation (KLDC) was organized in 1994 under Not-For-Profit Corporation Law and is operated exclusively for the charitable or public purposes of relieving and reducing unemployment, promoting and providing for additional and maximum employment, bettering and maintaining job opportunities, promoting instruction or training of individuals to improve or develop their capabilities for such jobs, aiding in attracting new business and industry, or by encouraging the development of, or retention of, business and industry within the City of Kingston.

The Organization is exempt from Federal income tax as an Organization described in Sec. 501(c)(3) of the Internal Revenue Code.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Method of Accounting and Financial Reporting

For purposes of applying accounting and financial reporting standards, KLDC is considered a governmental entity and a component unit of the City of Kingston since all the board members are appointed by the Mayor.

As such, KLDC has implemented the requirements of GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*.

- The financial statements are prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.
- The Management Discussion and Analysis (MD&A) section is management's analysis of the Organization's overall financial position and results of operations.
- The financial statements are prepared using the full accrual basis for all activities. Operating revenues and expenses result from providing lending services and also operation of a business park.

Loans Receivable

Loans receivable are carried at their estimated collectible amounts (net of allowance for losses). Interest income on loans is recognized using the accrual method. Provisions for losses on loans receivable are determined on the basis of loss experience, known and inherent risks in the loan portfolio, the estimated value of underlying collateral, and current economic conditions. Annually management reviews the listing of delinquent accounts and makes a determination of what loans should be placed non-accrual status. Upon suspension of the accrual of interest, interest income is subsequently recognized to the extent cash payments are received. Accrual of interest is resumed when loans are removed from non-accrual status. Loans receivable are charged against the allowance account when they are deemed uncollectible. As of December 31, 2013 the allowance for doubtful accounts was \$163,140.

See auditors' report.

CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013

Capital Assets

Capital assets are stated at cost including interest capitalized during the construction period on the Business Park. The improvements are being depreciated using the straight-line method over their estimated useful lives of 15 to 20 years. See Notes 7 and 8 for additional information on the Park.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Net Position

Net position presents the difference between assets and liabilities in the statement of net position. Net assets invested in capital assets are reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are external restrictions by creditors, grantors, laws or regulations of other governments.

NOTE 3 - CASH AND COLLATERAL

KLDC maintains cash balances at several financial institutions located in Kingston. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000 each for interest and non-interest bearing accounts. Deposits at year-end were covered by federal depository insurance or by collateral held by a custodial bank in KLDC's name. The deposits consist of:

<u>Bank</u>	<u>Bank Balance</u>	<u>Insured (FDIC)</u>	<u>Collateralized</u>	
			<u>Bank</u>	<u>No Collateral</u>
Catskill Hudson Bank	\$ 1,892,357	478,111	1,674,156	-
Senate Securities	25	25	-	-

For purposes of reporting cash flow, cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash and near their maturity.

NOTE 4 - RESTRICTED CASH

Payments received on 108 loans are restricted to paying KLDC's debt service on its outstanding 108 loans from HUD.

NOTE 5 - INTRAFUND BORROWING

As of December 31, 2007 the Kingston Business Park (KBP) had borrowed \$412,000 from the EDI grant, \$231,709 from the KRLF and \$29,000 from KNEC. During 2013 KBP paid back loans from the KRLF and KNEC in full. There were no repayments made to the EDI loan in 2013. These loans are for construction costs and are non-interest bearing. They will be repaid after other outside loans have been repaid.

CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 5 – INTRAFUND BORROWING (CONTINUED)

In addition, the KBP borrowed \$100,000 from the Section 108 loan program at an interest rate of 6.8117% to be repaid over 20 years in varying monthly installments with the final balance due August 2015. The balance due was \$30,236 at December 31, 2013.

NOTE 6 - LOAN PROGRAMS

The Organization grants loans to businesses through the Community Development Revolving Loan Fund (CDRLF), the Kingston Revolving Loan Fund (KRLF), the Section 108 Loan Guarantee and the related Economic Development Initiative (EDI), the Kingston-Newburgh Enterprise Community (KNEC) and the Micro Enterprise Program (Micro). The primary objective of all loan programs is to enhance job retention and creation in the City of Kingston. Interest rates vary but are always below the prime lending rate when issued. In addition, KLDC grants interest-free loans for façade improvements which are forgiven over a 10-year period. Loans are generally secured by liens on real property and security interests in other business assets. Activity is summarized as follows:

	Balance 12/31/12	Loans Granted	Loan Payments	Loan Write-offs	Balance 12/31/2013
KRLF	\$ 371,712	17,900	41,484	87,382	\$ 260,747
CDRLF	934,375	-	62,234	479,109	393,032
Sec 108	1,967,956	-	235,395	406,722	1,325,839
EDI	90,625	-	7,500	25,000	58,125
KNEC	118,430	-	16,414	45,913	56,103
Micro	5,908	-	-	5,908	-
Noah Hotel	35,000	-	35,000	-	-
Façade Improvement	8,067	-	-	2,534	5,533
Total	<u>3,532,073</u>	<u>17,900</u>	<u>398,027</u>	<u>1,052,568</u>	<u>2,099,378</u>
Allowance for estimated losses	(980,999)				(163,140)
Interfund loan to KBP (Note 8)	(30,236)				(30,236)
Net	<u>\$ 2,520,838</u>				<u>\$ 1,906,002</u>
Current portion	\$ 379,332				\$ 203,731
Non-current portion, net	<u>2,141,506</u>				<u>1,702,271</u>
Net	<u>\$ 2,520,838</u>				<u>\$ 1,906,002</u>

A total of \$163,907 in loans is considered to be in nonaccrual status as of December 31, 2013. During 2013, KLDC wrote-off a large amount of delinquent accounts that had been estimated to be uncollectible during the years 2006-2012. Allowances for the potential losses were posted to bad debts to offset the receivables during those years. Management determined that these loans should be written off based on various efforts made by management and legal counsel to collect the debt.

CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 7 - KINGSTON BUSINESS PARK

KLDC owns and operates the Kingston Business Park (KBP). Phase I of the Park was substantially completed during 1997. The first tenant, Huck International, moved into its facility in May 1997. The lease is for 20 years with additional options to extend for a total of 99 years.

A second tenant, Armor Dynamics (AD), was added to the site in 2007. KLDC negotiated a lease agreement with AD for a period of 20 years with an option to purchase prior to the end of the lease. AD may also extend the lease for 7 additional periods of 10 years plus 1 additional term of 9 years. After the third full year of the lease, AD may terminate the lease by giving KLDC 6 months written notice.

Minimum future annual lease payments are as follows:

2014-2018	683,000
2019-2023	525,000
2024-2028	600,000

NOTE 8 – CAPITAL ASSETS

2013 activity related to capital assets, consisted of the following:

	Balance 12/31/12	Additions	Disposals/ Transfers	Balance 12/31/13
<u>Kingston Business Park</u>				
Land	\$ 2,784,953	-	-	\$ 2,784,953
Construction in progress	10,373	-	-	10,373
Depreciated Assets:				
Improvements	1,595,934	-	-	1,595,934
Buildings	1,854,782	-	-	1,854,782
Total capital assets	6,246,042	-	-	6,246,042
Less accumulated depreciation:				
Improvements	1,057,273	80,244		1,137,517
Buildings	189,344	46,370		235,714
Total accumulated depreciation	1,246,617	126,614	-	1,373,231
Net Kingston Business Park	4,999,425	(126,614)	-	4,872,811
<u>Other</u>				
Equipment	32,599	-	-	32,599
Less: Accumulated depreciation	(27,670)	(2,370)		(30,040)
Temporarily idle property	6,527	446,065		452,592
Net other	11,456	443,695	-	455,151
Total capital assets	\$ 5,010,881	317,081	-	\$ 5,327,962

See auditors' report.

CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 8 – CAPITAL ASSETS (CONTINUED)

The KLDC received a donation from Bank of America of their former building at 635 Broadway. The value of the building was recorded at \$400,000 based on an appraisal. Plans for the building have not been finalized; therefore it is idle property at the current time. Holding costs of \$46,065 were capitalized for the year.

NOTE 9 – NOTES PAYABLE

KLDC previously entered into an agreement with the US Department of Housing and Urban Development (HUD) for loan guarantee assistance totaling \$3,420,000 under Section 108. After loans to local businesses are approved by KLDC, funds are drawn down against this authorization. Permanent financing was received in October 1997, April 1999 and August 2001 when trust certificates guaranteed by HUD were sold in a public offering. All notes were subsequently refinanced to take advantage of lower interest rates.

Principal on the notes is due in varying amounts through August 2017. The interest rates vary between .29 and 5 percent depending on when the notes were refinanced. \$145,000 was paid on these loans during 2013 and a total of \$440,000 remained outstanding as of December 31, 2013. These loans are secured by Section 108 income and CDBG funds.

During 2005, KLDC drew down an additional \$5,359,000 under the Section 108 loan guarantee program. The first principal payment on this loan was paid in August 2008 with varying amounts due through 2025. Interest is payable based on the three-month London Interbank Offered (LIBO) rate plus 200 basis points and was .44% at December 31, 2013. \$600,000 was paid on this loan during 2013 with a total of \$930,000 outstanding as of December 31, 2013. KLDC is in talks with borrowers and HUD to obtain permanent financing on the remaining balance.

KLDC has drawn down \$157,290 from DOT as part of the financing of Phase 1A of the Business Park. The loan is interest-free and will be repaid in varying amounts over 5 years, beginning in 2014.

Long-term debt is payable as follows. Interest for interim 108 loans is calculated using current rates.

	<u>Principal</u>	<u>Interest</u>
2014	\$ 155,733	12,337
2015	406,458	8,970
2016	116,458	5,241
2017	101,458	4,204
2018	47,183	3,126
2019-2023	500,000	11,165
2024-2025	200,000	1,340
Total Long-term Debt	<u>\$ 1,527,290</u>	<u>46,383</u>

CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 10 - TRANSACTIONS WITH CITY OF KINGSTON

The Organization's staff are actually employees of the City of Kingston's Community Development office (CD). All KLDC activities are conducted out of the CD office. A portion of the staff's salary is allocated by the City to KLDC based on estimated time spent on KLDC activities. However, a review of overhead expenses has not been undertaken to determine the portion that should be allocated to KLDC.

The City of Kingston had given the KLDC the authority to accept donations for certain projects due to KLDC's tax exempt status. In 2013 the City decided to take over the administration of those funds so they were transferred from KLDC to the City. This transfer is shown as a non operating grant for \$61,832 on the accompanying statement of changes in net position. This represents the full amount of restricted assets held by KLDC at December 31, 2013; therefore there is no restricted balance at December 31, 2013.

NOTE 11 – SUBSEQUENT EVENTS

Management of Kingston Local Development Corporation has evaluated events after December 31, 2013 and through March 31, 2014, which is the date that the financial statements were available to be issued, and determined that any events or transactions occurring during this period that would require recognition or disclosure are properly addressed in these financial statements.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Directors
City of Kingston Local Development Corporation
Kingston, New York

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the City of Kingston Local Development Corporation (a nonprofit organization) as of and for the year ended December 31, 2013, and the related notes to the financial statements, and have issued our report thereon dated March 31, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Kingston Local Development Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Kingston Local Development Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Kingston Local Development Corporation's internal control.

Our consideration of the internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as 2013-1 and 2013-3 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Kingston Local Development Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matter that are required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2013-2 and 2013-3.

City of Kingston Local Development Corporation's Response to Findings

The City of Kingston Local Development Corporation's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

This report is intended solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KIMBALL & O'BRIEN PC

By Mary A. Kimball

March 31, 2014

CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2013

SECTION I – SUMMARY OF AUDITORS’ RESULTS

	<u>Response</u>
Financial Statements	
Type of auditors’ report issued	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	Yes
Significant deficiencies identified that are not material weaknesses?	No
Noncompliance material to the financial statements noted?	Yes

SECTION II – FINANCIAL STATEMENT FINDINGS

2013-1: REPORTING

Criteria –Management is responsible for the fair presentation in the financial statements of financial position and changes in financial position in conformity with U.S. generally accepted accounting principles. In addition, management is responsible for establishing and maintaining internal controls over financial reporting.

Condition – There is more than a remote likelihood of a material misstatement in the City of Kingston Local Development Corporation’s financial statements.

Effect –As a result of our audit, we proposed several significant adjustments to the City of Kingston Local Development Corporation’s financial records in order for financial position and results of operations to be presented in conformity with generally accepted accounting principles.

Cause – The individual responsible for the bookkeeping does not have significant training in the appropriate accounting procedures for the organization. In addition, there is limited segregation of duties as this person also serves as the executive director of the organization and there is limited oversight by other members of management.

Recommendation –Improvements have been made in reporting to the board and board oversight of operations; however, additional work needs to be done in order to establish appropriate internal control with such a limited number of staff. Management should continue to develop and implement policies and procedures to ensure proper oversight of the entity’s system for financial reporting. These policies should include specific procedures relating to the review of bank reconciliations and overall management of loans receivable.

Management’s Response – Recognizing deficiencies with respect to oversight, in August 2013 the new Executive Director put into place additional oversight procedures and met with the KLDC Board Treasurer to discuss additional measures that should be taken for oversight of financial transactions. Effective immediately, the Treasurer began review of all vouchers and disbursements to date for 2013. As of August 2013, the Treasurer’s signature is required on all vouchers. Once a month, the Treasurer reviews vouchers, disbursements, all bank reconciliations and signs off on them. Wire transfers are done with authorization and signatures of not less than two people. The current staff are scheduled to attend training in 2014 for both Revolving Loan Fund Lending and Section 108 loans.

CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2013

2013-2: COMPLIANCE-PAAA

Criteria – Per the Public Authority Accountability Act of 2005, Kingston Local Development Corporation (KLDC) is considered a “local authority” and must comply with the requirements of this act including an annual report to the Authorities Budget Office (ABO) which oversees the authorities within New York State.

Condition –KLDC has only partially implemented the requirements of the Act. In addition there were several errors in the report submitted to the ABO.

Effect –KLDC is not fully in compliance with the Act and reporting was not correct.

Cause – The staff of KLDC were finally getting all the policies and procedures in place as required by the Act; however, there was a setback in the current year due to the change in staff and related lack of communication.

Recommendation – The Board should review all the requirements set forth by the Act so that they are aware of what must be done to be in compliance. In addition, staff should be very careful when preparing the annual report to help ensure that all required information is included and correct. The board member approving the report should perform more than a cursory review of the report as all information is available to the public on the ABO’s website.

Management’s Response – While current staff cannot be held accountable for previous staff’s lack of compliance in reporting, they have completed all required reporting for the NYSABO in accordance with the required due dates. Board members had not previously been afforded the opportunity to review the reports prior to submission to NYSABO. As of the 2014 submission, the Treasurer has reviewed all reports and related documents sent to the ABO.

CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2013

2013-3: COMPLIANCE-HUD

Criteria – The City of Kingston was eligible for participation in HUD’s Section 108 loan program as a recipient of Small Cities grant program. The City assigned these loans to the Kingston Local Development Corporation (KLDC) to lend the money to businesses and collect the principal and interest. There were additional requirements on these loans since the funds used for these loans to businesses came from loans from HUD, and not from a pool of revolving loan funds.

Condition – The wording of the original loan agreements with businesses for these funds included several errors including not being in accordance with the requirement of the program regarding interest rate to be charged. These old agreements were reviewed under the new management at KLDC. It was determined that borrowers had not been repaying their loans in accordance with the loan agreement. As a result the balance of one loan was recalculated from inception based on erroneous terms.

Effect – The revised interest rates are significantly less than those that KLDC must actually pay on their outstanding loan balance to HUD. The recalculation resulted in a material decrease in the outstanding balance on the loan. The negative cash flow from this recalculation could affect the City of Kingston’s Small Cities grants as they are designated as collateral for these loans.

Cause – This unfortunate situation has many causes; however, the root cause was the preparation of a loan agreement many years ago based on boiler plate language which was not reviewed by legal counsel familiar with the workings of the Section 108 loan program. A contributing factor was the total changeover in staff/management during the prior year which left KLDC without detailed knowledge of the program.

Recommendation – The board of KLDC should consult the organization’s corporate attorney and the City’s representative at HUD to ensure that this situation is appropriately addressed. In addition, the board must implement policies and procedures to make sure that any changes made in the terms of loans must be approved by the full board.

Management’s Response – In order to commence a foreclosure matter, the loan file in question was transferred to an attorney retained for this purpose. That attorney brought her concern about the note to the attention of the City Corporation Counsel. After the borrower filed bankruptcy, for purposes of determining the amount of the KLDC’s claim KLDC staff, two board members, a banker and an accountant as well as the City of Kingston Corporation Counsel reviewed the loan documents. The balance due on the loan in question was recalculated using the terms set forth in a legal instrument between borrower and the KLDC. The Board has consulted with Counsel and their Consultant for 108 loans and the City’s CDBG program and there is a uniformity of opinion on this matter.

CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2013

2013-3: COMPLIANCE-HUD (Continued)

The staff and the KLDC board were well aware of the ramifications of this matter, but neither the Board, the staff, nor its attorneys can act contrary to law in filing a Bankruptcy Proof of Claim.

While there may be ramifications, any inconsistencies of wording on loan agreements should have been detected upon initial review. The audit does not set forth the “requirements of the program” with which the loan in question was not in conformance. Management’s attention has been drawn to the 1996 agreement between the City of Kingston and the United States Department of Housing and Urban Development which references interest rates to be charged on business loans. There is no factual finding in the audit that the recalculation of the interest owed on the loan in question was inconsistent with the terms of the agreement. In the absence of such a finding, the assertion that the relative experience of the current staff had anything to do with this situation is unfounded. Even were it the case, any inconsistency between the terms of the loan and the 1996 City-HUD agreement would be the responsibility of the individuals who drafted and approved the loan document, not the current staff, management or board.

STATUS OF PRIOR FINANCIAL STATEMENT FINDINGS

Findings 2013-1 and 2013-2 are repeated from prior years.